

Message Text

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ACTION SS-15

INFO OCT-01 ISO-00 SSO-00 CCO-00 /016 W

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FM USDEL SECRETARY IN KINSHASA

TO SECSTATE WASHDC IMMEDIATE

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FOR S AND S/S

E.O. 11652: N/A

TAGS: OVIP (KISSINGER, HENRY A.)

SUBJECT: ACTIONS TAKEN

1. 7608593, IRS RULING ON OIL PRODUCTION - SHARING CONTRACTS.
SECRETARY APPROVED RECOMMENDATION, AND AUTHORIZED FOLLOWING MESSAGE
TO BE DELIVERED TO TREASURY SECRETARY SIMON. BEGIN TEXT:

DEAR BILL:

1. I UNDERSTAND THAT THE INTERNAL REVENUE SERVICE HAS INDICATED
THAT IT PROPOSES TO DENY U.S. TAX CREDITS FOR PAYMENT TO
INDONESIA UNDER OIL PRODUCTION SHARING AGREEMENTS. I HAVE
ALSO BEEN ADVISED THAT THIS REPRESENTS A CHANGE IN APPROACH
WHICH WILL SIGNIFICANTLY ALTER THE ECONOMIC EFFECT OF PRODUCTION-
SHARING ARRANGEMENTS.

2. I AM CONCERNED, HOWEVER, THAT IMPORTANT FOREIGN POLICY
CONSIDERATIONS HAVE NOT BEEN FULLY CONSIDERED IN THIS PRELIMINARY
DECISION. WE BELIEVE THAT IT IS UNDESIRABLE TO DISCOURAGE EXPANDED
PRODUCTION IN INDONESIA, OR TO DISCOURAGE THE USE OF PRODUCTION
SHARING CONTRACTS, WHICH WE HAVE SUPPORTED AS THE ONLY VIABLE
ALTERNATIVE TO EQUITY INVESTMENTS IN MANY LDC'S AND IN NON-
MARKET ECONOMIES.

3. THE PROPOSED REVISED TAX APPROACH WOULD COUNTER OUR EFFORTS
IN THIS DIRECTION AND FURTHERMORE COULD FORCE RENEGOTIATION

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OF EXISTING CONTRACTS. ALTERNATIVELY, IT COULD RESULT IN

CURTAILMENT OF PRODUCTION AND FURTHER DEVELOPMENT IN INDONESIA
AND IN OTHER NATIONS, WITH A SERIOUS AND NEGATIVE FOREIGN POLICY
IMPACT.

4. I HOPE VERY MUCH THAT YOU CAN BE CONVINCED TO REVIEW THE
PROPOSED CHANGE IN TAX CREDIT POLICIES.

WARM REGARDS,
HENRY A. KISSINGER
KISSINGER

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